

Indiana Michigan Power Summer 2006 Preparedness

Presentation to the Indiana Utility Regulatory Commission

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I&M Presenters

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Peak Demand – 2005

| | Date | Hour Ending EST | Peak Demand MW |
|--------------------------|-------------|--------------------------------|-------------------------------|
| I&M | Aug. 3 | 1400 | 4,193 |
| AEP System- East Zone | July 26 | 1500 | 20,774 |

I&M Summer 2006 Peak

Summer 2006 – Projected MW

| | June | July | August |
|----------------------------|--------------|--------------|--------------|
| Peak Internal Demand | 4,200 | 4,464 | 4,334 |
| Committed Off-System Sales | 276 | 207 | 216 |
| Total Demand | 4,476 | 4,671 | 4,550 |
| Interruptible Demand | (226) | (226) | (226) |
| Net Demand | 4,250 | 4,445 | 4,324 |

I&M Resources to Meet 2006 Peak

| | June | July | August |
|-------------------------|--------------|--------------|--------------|
| Installed Capability | 5,044 | 5,042 | 5,042 |
| Purchases | 189 | 189 | 189 |
| Total Capability | 5,233 | 5,231 | 5,231 |

I&M Resources -- Reserve Margins

Interruptible Demand = 226 MW

| | June | July | August |
|--|-------------|-------------|-------------|
| Total Capability | 5,233 | 5,231 | 5,231 |
| Total System Demand | 4,476 | 4,671 | 4,550 |
| Reserve Margins Before Interruptibles (%) | 757 16.9 | 560 12.0 | 681 15.0 |
| Reserve Margins After Interruptibles (%) | 983 23.1 | 786 17.7 | 907 21.0 |

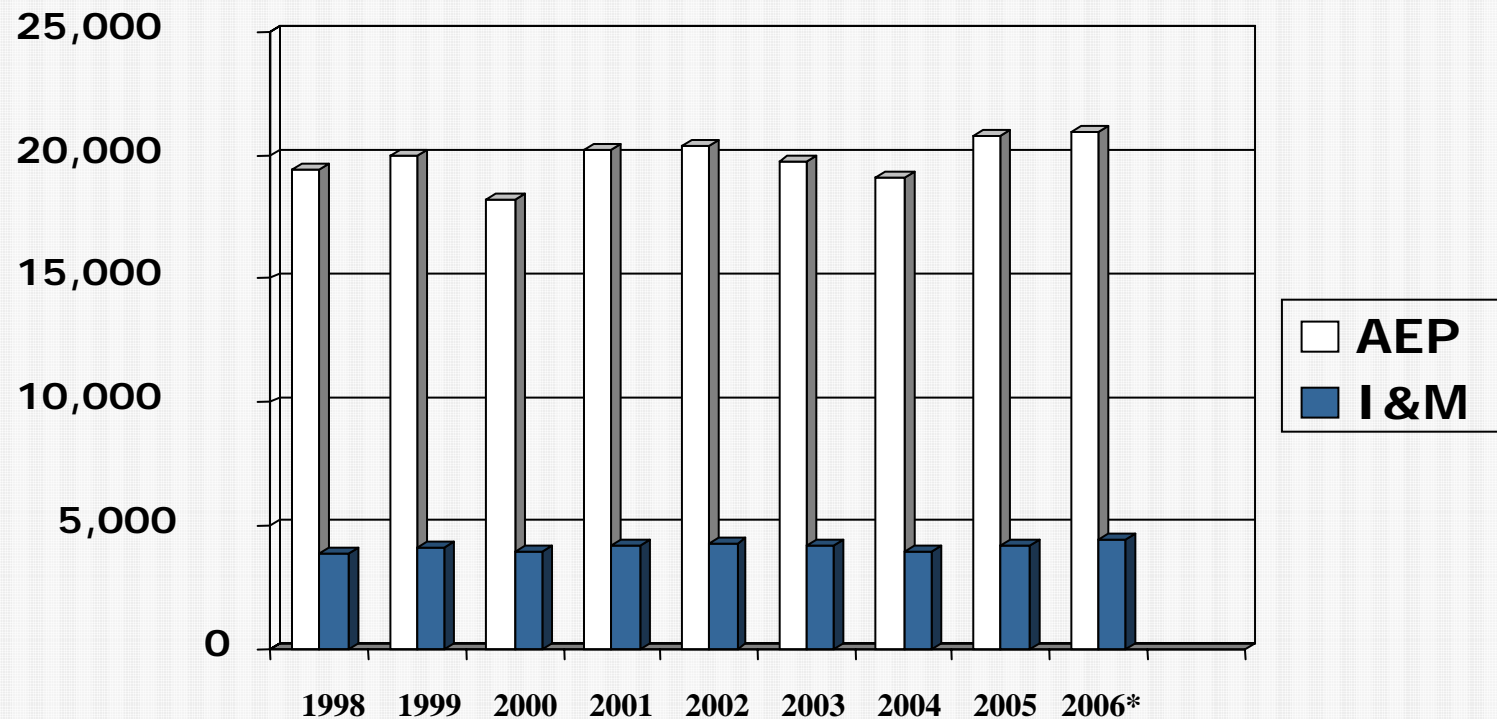
All numbers are MW except where indicated.

Summer 2006 Peak AEP System-East Zone

| Summer 2006 – Projected MW | | | |
|----------------------------|---------------|---------------|---------------|
| | June | July | August |
| Total Demand | 21,261 | 21,439 | 20,421 |
| Interruptible Demand | (469) | (469) | (469) |
| Net Demand | 20,792 | 20,970 | 19,952 |

Summer Peaks

AEP System-East Zone /I&M



* Projected

Resources and Reserve Margins AEP System-East Zone

Interruptible Demand = 469 MW

| | June | July | August |
|--|---------------|---------------|---------------|
| Total Capability + Purchases | 25,555 | 24,803 | 24,802 |
| Total System Demand | 21,261 | 21,439 | 20,421 |
| Reserve Margins Before Interruptibles (%) | 4,294 20.2 | 3,364 15.7 | 4,381 21.5 |
| Reserve Margins After Interruptibles (%) | 4,763 22.9 | 3,833 18.3 | 4,850 24.3 |

All numbers are MW except where indicated.

Purchase Power Agreements

AEP System-East Zone

| | June | July | August |
|--------------|--------------|--------------|--------------|
| OVEC | 951 | 951 | 951 |
| Summersville | 80 | 80 | 80 |
| Mone | 90 | 90 | 90 |
| Total | 1,121 | 1,121 | 1,121 |

Additional purchases from market resources, which include Indiana merchant plants, may be made if a need arises. But the amounts and types of transactions will not be known until the specific circumstances are identified.

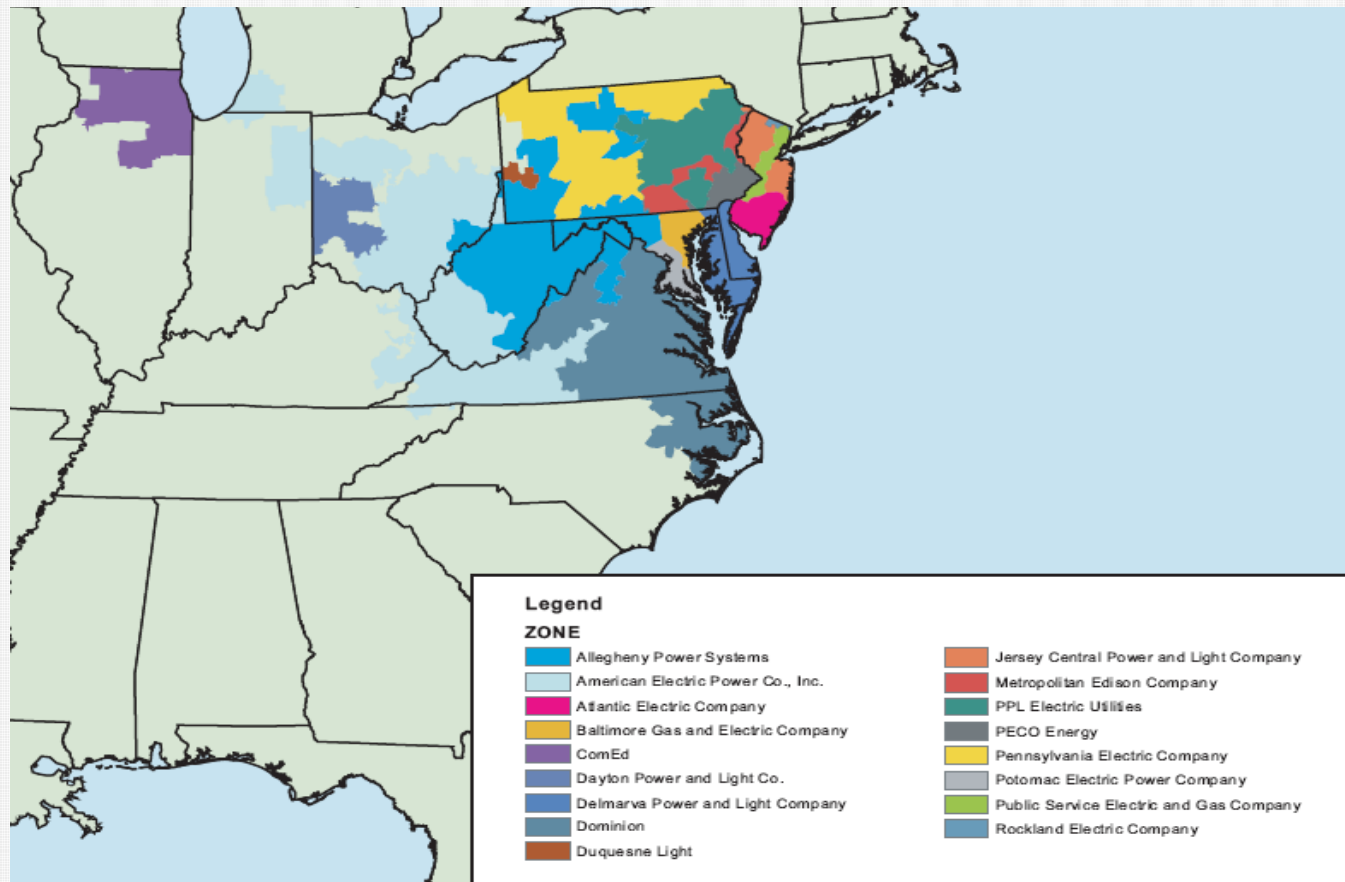


Reducing Peak Demand

- Interruptible Loads (Indiana 226 MW at peak)
 - Contract Service Interruptible Power tariff
- Load Management Services
 - Emergency Curtailable Service
 - Price Curtailable Service
- Time-of-Day Rates
 - 2,600 Indiana customers
 - 16,500 Off-peak water heating systems

Life in PJM

PJM



Talking points

- AEP and PJM
- Capacity Requirement
- Economic Dispatch
- Congestion Management
- PJM/MISO Coordination

AEP & PJM Interaction

- AEP works with PJM and other stakeholders on a daily basis, providing guidance in the areas of Operations and Markets.
- AEP continually analyzes how PJM operates their market and operational systems
 - AEP advocates Operational and Market improvements

Capacity Requirement

- AEP continues to meet its 15% installed reserve margin requirement within PJM
- New capacity construct on horizon – Reliability Pricing Model
 - 4-year look-ahead commitment
 - Possible self-supply option
 - Proposed implementation in June 2007

Economic Dispatch

PJM uses a security-constrained economic dispatch.

AEP offers energy and ancillary services to PJM.

PJM dispatches the lowest cost solution to meet the energy requirements of the PJM footprint.

Ensures AEP customers have access to low-cost energy.



Financial Transmission Rights

Used as a financial hedging mechanism to offset congestion costs between generation and load.

Not a physical right to use the transmission system

Financial Transmission Rights



$$\text{Congestion Cost} = [\$30 - \$25] = \$5 / \text{MWh}$$

$$\text{FTR Revenue} = \$5 / \text{MWh} \times 100 \text{ MW} = \$500 / \text{hr}$$

PJM & MISO Coordination

PJM and MISO work together to ensure the safe, reliable use of the transmission system.

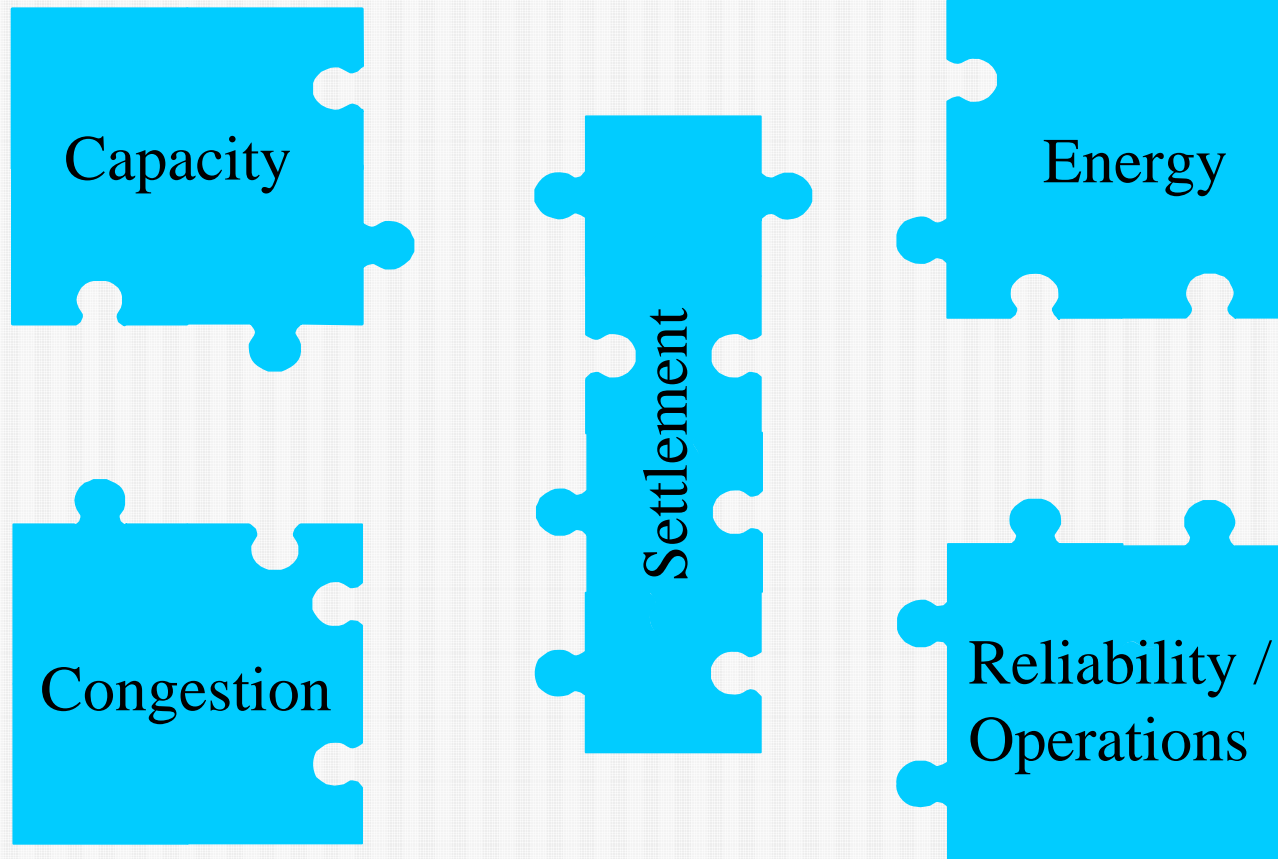
PJM and MISO compute the effects of transactions and internal schedules on their respective transmission system.

PJM and MISO use “shadow prices” to dispatch units in both markets to alleviate flows across certain congested transmission elements.

MISO Day 2

- No significant impact on Indiana Michigan Power's operations as a result of MISO Day 2 start-up
- No impact on AEP's capacity obligation or its available supply
- No impact on AEP's pool operation and settlement
- MISO and PJM are now using a market-to-market approach to congestion management
 - ✓ No noticeable impact on congestion patterns that impact operations
- Transactions between AEP East and AEP West are now subject to congestion across MISO but AEP received an FTR to hedge the congestion

The Elements Fit Together



Questions?